

Message Text

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11

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03 H-02

PA-03 PRS-01 USIA-12 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 RSR-01 AGR-20

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R 261100 Z APR 73

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 1169

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY LUXEMBURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E. O. 11652: N/A

TAGS: EFIN, NL

SUBJECT: NETHERLANDS CENTRAL BANK BUYS 512 MILLION GUILDERS IN
SUPPORT OPERATIONS

SUMMARY

OVER PAST 2 1/2 WEEKS, NETHERLANDS CENTRAL BANK HAS INTERVENED
FREQUENTLY IN RELATIVELY SMALL AMOUNTS TO PREVENT DECLINE OF
GUILDER BELOW FLOOR OF EXCHANGE RATE VIS- A- VIS BELGIAN FRANC,
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AND SWEDISH, NORWEGIAN AND DANISH CROWN. TOTAL AMOUNT OF INTERVENTION 512 MILLION GUILDERS. WEAKNESS OF GUILDER APPARENTLY ATTRIBUTABLE TO STEEP NEGATIVE INTEREST RATE ON NONRESIDENT DEPOSITS, AS WELL AS SOME FOREIGN CONCERN ABOUT DUTCH INFLATION, LABOR UNREST AND POSSIBLE ADVENT OF SOCIALIST CABINET. END OF SUMMARY

1. NETHERLANDS CENTRAL BANK WAS OBLIGED TO INTERVENE APRIL 25 TO TUNE OF 78 MILLION GUILDERS, TO MAINTAIN GUILDER AT FLOOR OF EXCHANGE RATE VIS- A- VIS BELGIAN FRANC, NORWEGIAN CROWN AND DANISH CROWN. ON APRIL 24, INTERVENTION AMOUNTED TO 119 MILLION GUILDERS.

2. COMMENCING APRIL 9, CENTRAL BANK HAS EXTENDED SUPPORT AMOUNTING TO TOTAL OF 512 MILLION GUILDERS. MAJOR ACTIVITY HAS BEEN IN BELGIAN FRANCS, BUT CENTRAL BANK HAS ALSO SOLD MODERATE AMOUNTS OF SWEDISH, NORWEGIAN AND DANISH CURRENCIES, AND SMALL AMOUNTS OF FRENCH FRANCS.

3. DEMAND FOR " O " GUILDER, REQUIRED BY NONRESIDENTS FOR PURCHASE OF DUTCH DEBT SECURITIES, HAS ON OTHER HAND CONTINUED STRONG. PREMIUM OFFERED IS 4 3/4 TO 5 1/8 PERCENT, REFLECTING GOOD PERFORMANCE OF DUTCH SECURITY MARKET.

4. COMMENT: WITH DUTCH TRADE BALANCE IN JANUARY- FEBRUARY 1973 PERIOD SHOWING LARGEST TWO MONTH SURPLUS IN SEVERAL YEARS, AND WITH PROJECTIONS OF A 2 1/2 BILLION GUILDER CURRENT ACCOUNT SURPLUS IN 1973 CONFIDENTLY REITERATED TO US BY GOVERNMENT OFFICIALS, THERE IS NO FUNDAMENTAL REASON FOR GUILDER TO WEAKEN AT THIS TIME. CENTRAL BANK SOURCES ATTRIBUTE SOFTENING PRIMARILY TO 13 PERCENT ANNUAL NEGATIVE INTEREST RATE ON NONRESIDENT DEPOSITS IN EXCESS OF FEBRUARY LEVELS, AND RATHER AMPLE DOMESTIC LIQUIDITY. THEY TERM SUPPORT OPERATIONS " TEMPORARY PHENOMENON"; STATE THAT (BEYOND 6 PERCENT COMPULSORY BANK RESERVE NOW IN EFFECT) NO SPECIAL MEASURES ARE PLANNED; POINT TO HUGE REMAINING FOREIGN EXCHANGE RESERVES (OVER 7 BILLION GUILDERS); AND EXPRESS PLEASURE ABOUT SUBSTANTIAL OUTFLOWS OF DOLLARS AS RESULT OF UNWINDING POSITIONS TAKEN DURING FEBRUARY- MARCH CRISIS. OUR COMMERCIAL BANKING SOURCES AGREE THAT IT IS FAR TOO EARLY TO SPEAK OF ANY " GUILDER CRISIS", BUT SEVERAL NOTE SOME EROSION OF CONFIDENCE IN GUILDER. THIS IS ATTRIBUTED TO RENEWED SURGE IN DUTCH INFLATION (1 PERCENT FOR MARCH ALONE), CONTINUED LABOR UNREST, AND CONCERN THAT LEFT OF CENTER CABINET LIKELY TO EMERGE AFTER INTERREGNUM OF RECORD DURATION (ITSELF AN UPSETTING FACTOR) AND PURSUE LIMITED OFFICIAL USE

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POLICIES WHICH WOULD WEAKEN GUILDER.
TANGUY

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NMAFVVZCZ

*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

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